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April 18, 2006

Ms. Anne Stausboll
Interim Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: High Yield Manager Contract Renewal Recommendation¹

Dear Anne,

You requested Wilshire's opinion with respect to Staff's recommendation regarding to the annual review and renewal of the contracts of the four high yield managers. Wilshire concurs with Staff's recommendations to renew all four contracts.

Discussion

The high yield market continued to have positive returns for the one-year period ending March 31, 2006. During this time period, higher-quality high yield securities outperformed lower-quality high yield securities for the first time in three years (when judged on one-year performance cycles ending on March 31.) As you can see on Figure 1, lower-quality (i.e. CCC-rated) securities significantly outperformed higher-quality (i.e. BB-rated) securities in the 12 month periods ending March 31, 2003, 2004 and 2005.

This low-quality rally has had a considerable effect on many high yield managers' relative returns. As you might imagine, as credit quality falls, default rates tend to rise and recovery rates tend to decline. Defaulted credits are costly to a manager's performance and consume large amounts of time and energy. As such, many managers tend to focus on the higher quality segments of the markets.

¹ Wilshire's Code of Conduct requires us to disclose that certain of these managers are clients of Wilshire's Analytics Services Division and as such pay Wilshire a fee for services rendered. The names of CalPERS High Yield managers that are clients of Wilshire will arrive in a separate letter, in accordance with our Code of Conduct.

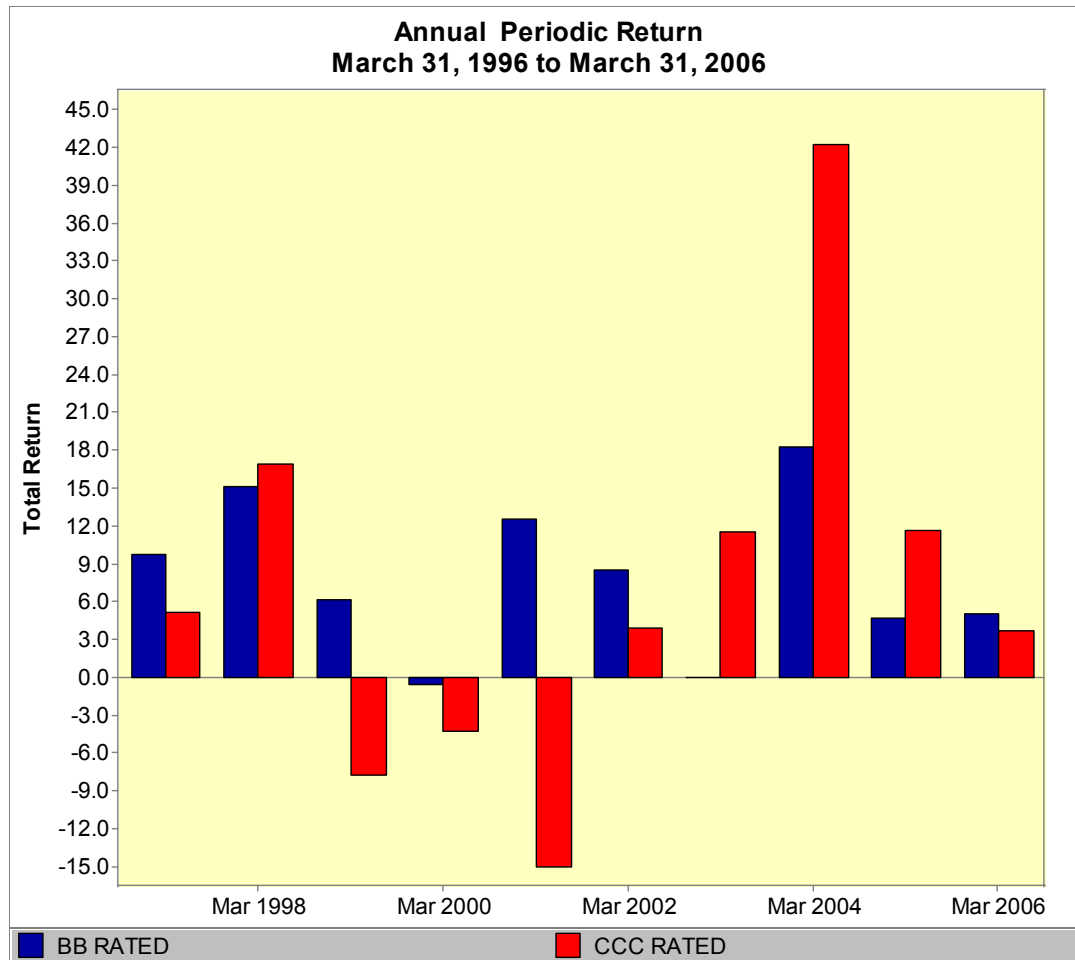


Figure 1

We support the annual contract renewal recommendation for each manager as we believe each manager has a strong process that has added value in the past. Additionally, since CalPERS has the option of terminating any of these managers on thirty days notice, any unanticipated change in the portfolio management team, the process or the firm, which is viewed negatively by CalPERS or Wilshire, CalPERS may terminate any of these managers on short notice.

We are continuing to closely monitor ING Ghent due to underperformance. However, no action should be taken at this point to terminate. Below are discussions on each of the managers.

Highland Capital Management L.P.

Highland Capital Management manages a distressed bank loan portfolio. Highland has closed its limited partnership to new investors. Wilshire believes this is an important step in maintaining the integrity of the investment management process for current investors. Additionally, Highland is continues to add staff and develop new products. Since the

inception of the account, the manager has outperformed by 16.71 percentage points on an annualized basis. Additionally, the floating-rate nature of bank loans provides some protection to CalPERS should interest rates continue to rise. Wilshire continues to have confidence in this manager.

ING Ghent

The ING Ghent portfolio is fairly concentrated and has more event-driven risk than a more diversified manager might. ING Ghent uses top-down analysis to systematically avoid “default-prone” industries such as restaurants and retail, except for special situations. Additionally, ING Ghent underperformed its benchmark for the year ended March 31, 2006 and has underperformed by 2.25 percentage points since the inception of the account due to some issuer-specific matters.

Wilshire has met with the investment team from ING Ghent three times in the past twelve months and believes that the team is committed to its process and is not changing the process in order to “chase” returns. We believe this style adherence will ultimately be rewarded and are pleased to see ING Ghent not changing the process in light of the product’s performance. However, Wilshire will continue to monitor this manager for improving performance.

Nomura

Nomura is a bottom up manager focused on companies with improving fundamental characteristics. Nomura’s bottom-up process leads it to conduct field research by meeting with company management and doing on-site visits. Nomura outperformed the benchmark for the year ended March 31, 2006 and has modestly outperformed (+0.37 percentage points annualized) since the inception of the account. Wilshire continues to believe in this manager’s ability to add value to the high yield program and will continue to monitor the portfolio and its performance.

PIMCO

PIMCO manages a very broadly diversified portfolio which limits the effect (positive or negative) that any single issue can have on the portfolio. PIMCO has strong non-traditional support for its high yield effort from its emerging markets team and non-dollar team. However, PIMCO has had some analyst turnover as people have left the organization. Wilshire believes that the turnover is not reflective of a larger problem but will monitor the changes in PIMCO’s team. PIMCO’s portfolio has slightly outperformed over the past year and since inception. Wilshire continues to believe in this manager’s ability to add value to the high yield program but will monitor the changes to the organization will continue to monitor the portfolio and its performance.

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Conclusion

While we are closely watching ING Ghent, Wilshire concurs with Staff's recommendation to renew the contracts for all of the high yield managers, as CalPERS still has the right to terminate on 30 days notice. Wilshire will continue to monitor these managers over the coming months.

Sincerely,

A handwritten signature in dark ink, appearing to read "Am Jin", is located below the "Sincerely," text.